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Title : Need to exempt Cooperative Banks from paying Income Tax under Section 80(P) of the Finance Act, 2006.

SHRI P. KARUNAKARAN (KASARGOD): I invite the attention of the Government especially the Finance Minister with regard to some problems of the cooperative banks.

The Finance Act 2006 has withdrawn the benefits of section 80 (P) for cooperative banks. Now all the cooperative banks have to pay income tax. It is only cooperative banks that can directly promote large-scale participation of poor people in the financial inclusion process. Co-operative banks are the only grass root level financial institutions that can facilitate the process.

Cooperative banks plough back most of their surplus in the form of resources. Being small institutions, they make very small profits. It is very likely that after providing for income tax, many banks may not have enough surplus to make NPA provisions and may go into losses. Cooperative Banks have no avenue to raise capital or access capital markets. The aggregate amount of income tax likely to be collected from cooperative banks may not be commensurate with the efforts required for the tax Department nor will the taxation make the banks any healthier.

All the 1875 urban cooperative banks 31 State cooperative banks and 365 Central Cooperative Banks which are accepted by RBI as banks and constitute a part of the payment system of the country have been brought under the tax net. Finance Minister's statement in the house and CBDT's assertion that only 2 per

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Â* The speech was laid on the Table.

cent of the banks have been included for taxation is factually incorrect. It is not correct to include 1,05,735 PACs as 'banking institutions' to arrive at the conclusion that 98 per cent of cooperative banking institutions are exempted.

It is also submitted that cooperative banks do not have access to capital markets. They rely heavily on creation of reserves in raising own funds for the purposes of capital adequacy. The Government should tax the profits of Cooperative banks only if the banks are in a position to raise capital from the market otherwise they should be helped to create their reserves by not imposing income tax and restoring the earlier position.

Cooperative banks are really functioning and surviving with the full support of the people. Unlike National Banks and Commercial Banks, the Cooperative sector has a very good mass base and has to compete with the private sector hence this sector has to be promoted. So, Government should promote such public investment oriented schemes and institutions and in order to assist them Government should exempt Cooperative banks from paying income tax as envisaged in the Finance Act 2006.